July/August 2001

CALIFORNIA FRANCHISE TAX BOARD

Tax News

State conforms to federal law in treatment of stock options

California conforms to federal law concerning taxation of nonqualified stock options (NQSOs) and incentive stock options (ISOs). In this article we explain how we tax stock option income when your clients change their state of residence to or from California. We also address the ISO alternative minimum tax adjustment.

Change of Residency to California (Move-In)

When a taxpayer is granted an NQSO while a nonresident of California and later exercises it while a California resident, we tax the difference between the fair market value of the stock on the date of exercise and the option price. We recognize income at the point of exercise because the taxpayer acquires stock with a value greater than the exercise price. We tax the income because the taxpayer is a resident of this state when the income is recognized.

When a taxpayer exercises an ISO while a nonresident of California and later sells the stock in a qualifying disposition (the holding period requirements under Internal Revenue Code 422 are met) while a California resident, we tax the difference between the amount realized on the sale and the option price because the taxpayer is a California resident when the stock is sold.

Change of Residency from California (Move-Out)

Nonqualified Stock Options

When a taxpayer is granted an NQSO while a California resident and later exercises it while a nonresident, we properly characterize the income from its exercise as compensation for services with a source in the state where the taxpayer performed the services.

Continued on page 2

Look for easy to read questionnaire, website in head of household program

A new webpage and an easy to read questionnaire highlight this year's head of household audit season.

The 2000 head of household audit season will begin in July with the mailing of the first batch of head of household questionnaires. You may notice the questionnaire is longer, two pages instead of one. That's because we increased the print size in order to make it easier to read.

Also new this year is our Head of Household webpage. Scheduled to launch this fall, the webpage will offer

Continued on page 3

Inside. . .

Taxpayer Advocate explains privileges of confidentiality
Page 3

Governor's office offers tips for conserving energy at the workplace
Page 4

Help for nonfilers now available on the Internet
Page 5

Proposed bills involving tax credits
Page 6

Tax News

Volume 00-4 July/August 2001

TAX NEWS is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

To update or correct your address or to subscribe to TAX NEWS (send $12 for a one-year subscription), write:

TAX NEWS
PO Box 2708
Rancho Cordova CA 95741-2708

or call: (916) 845-7070

To view TAX NEWS on the Internet or to request an electronic mail subscription, contact FTB on our website:
www.ftb.ca.gov

For information about a client's account, contact:

Tax Practitioner Support Unit
phone: (916) 845-7057
fax: (916) 845-6377

For recorded answers to questions on California taxes, to order forms, or to check on a refund, call:

(800) 338-0505
From outside U.S. (916) 845-6600

To send a facsimile about a client's account, transmit to:
Electronic Correspondence
(916) 845-6377

Information Center
(800) 852-5711
From outside U.S. (916) 845-6500

Hearing Impaired
TDD (800) 822-6268

FTB on the Internet
www.ftb.ca.gov

Printed on recycled paper.

Treatment of stock options

Continued from page 1

Nonresident taxpayers who performed services both within and outside of California must allocate to California that portion of total compensation reasonably attributed to services performed in this state (California Regulation 17951-5). One reasonable method is an allocation based on *time*.

The period of time includes the total amount of time from the date of grant to the date of exercise (or the date employment ended, if earlier). The basis for this position is that we properly characterize the income upon exercise as compensation for services during the time the stock increased in value. The ratio used in allocating the stock option income is (allocation ratio):

California workdays from date of grant to date of exercise

Total workdays from date of grant to date of exercise

Income taxable by California = Total stock option income x allocation ratio

If a taxpayer performs services for the corporation entirely within California, but exercises the option after terminating employment and becoming a nonresident, the difference between the fair market value of the stock on the date of exercise and the option price has a source in California even though the underlying value of the stock may have increased after the taxpayer became a nonresident.

Incentive Stock Options

When a taxpayer exercises an ISO while a California resident or while a nonresident and then disposes of the stock in a disqualifying disposition (the holding period requirements under IRC section 422 are not met) while a nonresident, the income from the disqualifying disposition is functionally equivalent to income from the exercise of an NQSO and we properly characterize it as wages. The wage income is equal to the difference between the fair market value (FMV) of the shares on the date of exercise (or the sale price, if lower) and the amount paid for the shares. If the FMV of the shares on the date of sale is greater than the FMV of the shares on the date of exercise, we treat the further increase in value as capital gain income (Proposed Treasury Regulation 1.422A-1(b)(3)). Here are some examples:

Example 1: Mr. Smith, a resident of California, worked for *X* Company. He performed all his services in California during his entire career. On April 1, 1996, Mr. Smith's company granted him an option to purchase stock under its incentive stock option plan. On April 1, 1999, while still living and working in California, Mr. Smith exercised his option to purchase 30,000 shares of his company's stock. The option price on April 1, 1996, was $10 per share. The FMV on April 1, 1999, was $50 per share. On December 30, 1999, Mr. Smith retired and permanently moved to Florida. On March 15, 2000, he sold the 30,000 shares for $35 per share.

We characterize income from the disqualifying disposition of ISOs as wages. Because Mr. Smith performed all his services in California between the grant date and the date of exercise of the option, we treat 100 percent of the income as wages from a California source as follows:

FMV of stock, date of sale:
$1,050,000 (30,000 shares @ $35* per share)

Less: Option price, date of grant:

$300,000 (30,000 shares @ $10 per share)

Equal:
Wage income, California source:$750,000

Continued on page 3

treatment of stock options

Continued from page 2

*We used the sale price of $35 to compute the wage income because it is *less than* the exercise price of $50.

Example 2: Assume the same facts as **Example 1,** except Mr. Smith sold the stock on March 15, 2000, when the FMV of the stock was $60 per share.

We determine the amount of income treated as wages from a California source as follows:

FMV of stock, date of exercise: $1,500,000 (30,000 shares @ $50 per share)

Less: Option price, date of grant: $300,000 (30,000 shares @ $10 per share)

Equal: Wage income, California source $1,200,000

We characterize the increase in the FMV of the stock from the exercise price of $50 to the sale price of $60 as capital gain income.

The capital gain income has a source in Florida, Mr. Smith's state of residence when he sold the stock.

FMV of stock, date of sale: $1,800,000 (30,000 shares @ $60 per share)

Less: FMV of stock, date of exercise: $1,500,000 (30,000 shares @ $50 per share)

Capital gain, Florida source: $300,000

Incentive Stock Option
Alternative Minimum Tax Adjustment

For federal and California AMT, the taxpayer must include, as an adjustment in figuring alternative taxable income, the amount by which the FMV of the stock exceeds the option price in the year the stock is substantially vested (the taxpayer's rights in the stock are transferable or no longer subject to substantial risk of forfeiture).

We require no adjustment if the taxpayer disposes of the stock in the same year of exercise. (**Note:** Please see *IRS Publication 525, Taxable and Nontaxable Income,* for additional information concerning substantially vested property.)

New head of household website debuts

Continued from page 1

information on the rules for qualifying for head of household filing status, our audit process, and answers to frequently asked questions.

We will again provide workshops on the head of household filing requirements. Workshops include a head of household program overview, an explanation of the qualification criteria, and a discussion about important questions you should ask your clients who file head of household.

For information on how to schedule a head of household workshop in your area, contact our Head of Household Program at (916) 845-6870 or email us at *HOH@ftb.ca.gov.*

Ask the Advocate

Debbie Newcomb

Taxpayer Advocate

Q: I am a certified public accountant authorized to practice before the Internal Revenue Service. The IRS provides my clients certain privileges of confidentiality when it comes to the tax advice I provide them. Does California offer something similar?

A: Yes. California's *Taxpayers' Bill of Rights* does protect communications about certain tax advice between taxpayers and their federally authorized tax practitioners (Tax practitioners authorized to practice before the IRS). Last year California added section 21028 to the *Taxpayer Bill of Rights* section of the California Revenue and Taxation Code to expand the types of communications protected (Assembly Bill 1016, enacted into law in September 2000). Here are its key points:

- The law is effective for communications made on or after January 1, 2000 and will remain in effect until January 1, 2005, unless a later statute changes the termination date.
- It extends the common-law, attorney-client privilege of confidentiality to tax advice (oral or written) furnished to a taxpayer-client (or potential taxpayer-client) by any individual

Continued on page 5

Do not submit zero balance vouchers

Each year we receive thousands of payment vouchers from individuals, partnerships and corporations that do not owe any tax.

Some spend upwards of $10 to send to us a zero balance payment voucher by certified mail.

Remember: if your clients do not owe anything, they do not need to mail us anything.

FLEX YOUR POWER

Ways to cut energy costs at your business

Dear Readers: The energy challenge facing California is real. Governor Gray Davis' office has asked us to help by getting the word out to all our customers about the importance of conserving energy. The following article contains some simple things that you can do right now to reduce demand and cut energy costs at your place of business.

Running a successful business means making every dollar count. Cutting back on unnecessary energy use is an easy way to keep your hard-earned money working for you. This guide is designed to help you target your energy-saving efforts for maximum value and impact. (The savings numbers are based on your total summer electric bill. Equipment mentioned must be electric powered for estimates to be accurate.)

Set your thermostat to 78 degrees or higher. *(Save two percent per degree above the old setting)*

To eliminate wasted energy:

- Close window blinds to shade interior spaces from direct sunlight. *(Save two percent)*
- Put your computer, monitor, and printer on sleep mode when not in use. *(Save 0.5 percent)*
- Turn off lights in unoccupied rooms. *(Save 1-2 percent)*
- Keep exterior and freight doors closed as much as possible. *(Save up to two percent)*
- Perform scheduled maintenance on air-conditioning units including cleaning condenser coils, replacing air filters, and checking ducts and pipe insulation for damage. *(Save 2-5 percent)*
- Encourage employees to be energy conscious.

Here are some other inexpensive energy solutions:

- Make a quick trip to your local hardware store to purchase inexpensive energy saving tools and equipment.
- Provide the right light levels
- Use bi-level switches to reduce lighting to the necessary light level. If workstations are equipped with task lighting, consider disconnecting unnecessary lamps and fluorescent ballasts. Be sure to maintain safe lighting conditions. *(Save up to 15 percent)*
- Choose Energy Star® lighting products
- Replace incandescent light bulbs with Energy Star® compact fluorescent light bulbs. *(Save up to 10 percent)*
- Install a programmable thermostat
- Lowering your air conditioning when you are closed will avoid unnecessary cooling costs. *(Save 1-4 percent)*

If you're planning to do some remodeling soon or are ready to replace equipment, consider these energy efficiency suggestions:

- When purchasing computers, monitors, printers, fax machines and copiers, choose Energy Star® models that *power down* after a user-specified period of inactivity. *(Save 0.5 percent)*
- Reduce your lighting costs. Retrofit T12 lights and magnetic ballasts to T8 lights and electronic ballasts. *(10-15 percent)*
- Retrofit incandescent light bulbs with compact fluorescent lights. *(Save 1-5 percent)*
- Remove excess fluorescent lamps. (Save up to eight percent)
- Install automatic room lighting controls to turn lights on or off, depending on occupancy or time of day. *(Save 1-3 percent)*
- Retrofit incandescent or fluorescent exit signs with long-lasting, low-energy LED exit signs. *(Save 0.2 percent)*

Check out *www.flexyourpower.ca.gov* for more information.

Ask the Advocate: Privileges of confidentiality

Continued from page 3

authorized under federal law to practice before the IRS on federal tax matters.
- It does not modify or expand the attorney-client privilege of confidentiality; other than to extend it to federally authorized tax practitioners.
- The new confidentiality privilege applies only to non-criminal tax matters before the Franchise Tax Board.
- Certain written tax communications involving the promotion of a corporate tax shelter are not protected.
- Only the taxpayer-client may assert or waive the confidentiality privilege, not the tax practitioner. The privilege only applies in court cases and/or litigation, not in audit or other administrative proceedings, and then, only in limited circumstances.

This confidentiality privilege applies only to the extent that communications would be privileged if they were between a taxpayer and an attorney. Consequently, the confidentiality privilege does not apply to any communication between practitioners and their clients if the communication would not have been privileged between an attorney and a client. Because information disclosed to an attorney for the purposes of preparing a tax return or providing accounting services is not privileged under present law, such information would not be privileged if it were disclosed to a practitioner.

Communications protected by the confidentiality privilege must be based on facts of which the practitioner is informed by the taxpayer, for the purposes of securing the practitioner's professional advice in confidence. For example, if a certified public accountant is retained to prepare a tax return, the return preparation services will *not* be protected.

The confidentiality privilege does not apply to any written communication between a federally authorized tax practitioner and a director, shareholder, officer, or employee, agent or representative of a corporation in connection with the promotion of the direct or indirect participation of the corporation in any tax shelter, or in any proceeding to revoke or otherwise discipline any license or right to practice by any governmental agency.

In short, the confidentiality privilege does not apply to certain written communications regarding corporate tax shelters.

Nonfilers can now use Internet to resolve accounts

As part of our effort to expand our e-government services, we now provide individuals the option to resolve their nonfiler accounts through the Internet.

Individuals can now contact us from home, work, or anywhere they have access to the Internet, to resolve their account or gain additional information needed to file their late return.

Here's how it works: When these individuals receive a nonfiler notice from us, they can log on to our new nonfiler webpage at *www.ftb.ca.gov/INC*. To ensure their confidentiality, only those individuals who have a nonfiler notice will be able to enter this specific webpage.

Next, the webpage will prompt them to enter a unique 15-digit notice number *(like a pin number)*. When they enter the correct notice number, our *Information & Action Guide* will appear. At this point users can access a variety of options for resolving their nonfiler account. We tried to provide information and services that these individuals would need to resolve their account, all in a single location. For example, they can:

- Get information that can assist them in filing a tax return,
- Get information on available payment options ,
- Download tax forms,
- Correct a misreported social security number, or;
- Email us with their questions.

Also, individuals who received a nonfiler notice from us can now use the webpage to request additional time to reply to the notice. We've found that about one-third of all telephone calls we receive as a result of our nonfiler notices are individuals requesting more time. They can now request more time via the Internet or by calling into our automated telephone service.

The telephone number when calling from within the United States is (866) 204-7902. When calling from outside the United States the number is (916) 845-7954 (not toll-free).

We began mailing nonfiler notices for the 1999 tax year in May. If one of your clients gets one of our nonfiler notices, check out the webpage!

PROPOSED BILLS

Among the measures being considered by the California Legislature are several bills involving tax credits. Here is a summary of those bills. Due to the volume of bills, we can only provide a brief summary of each. For a more complete description of the bills, along with our analysis, visit our *Laws and Legislation* webpage. The address is: *www.ftb.ca.gov/law_legis/index.htm.*

Assembly Bill 26 (Nation)
This bill would allow individuals a credit for contributions to a Scholarshare account or to a qualified state tuition program in another state made on behalf of any qualified beneficiary. The credit amount would equal five percent, 12.5 percent, or 25 percent of the amount contributed, determined by the taxpayer's filing status and adjusted gross income. Taxpayers with adjusted gross income over $75,000 ($150,000 for married couples filing a joint return or a head of household) would not be eligible to receive the credit. The credit would be limited to $500 per qualified beneficiary.

AB 39 (Thomson)
This bill would provide an eligible employer a refundable credit for providing health coverage for an eligible individual and for that individual's dependent(s). The credit would equal 50 percent of the total amount paid or incurred per month for health coverage provided by the employer. The employer would be required to pay at least 75 percent of the monthly premiums and meet a number of other requirements.

AB 94 (Daucher)
This bill would allow a credit equal to the total price paid or incurred by a qualified person for emission reduction credits purchased for an electrical generating facility. A qualified person would mean any person who owns or operates a facility in this state that generates electricity and agrees to offer to sell the electricity generated to purchasers within this state before offering that electricity to purchasers outside this state.

AB 106 (Cedillo)
This bill would create a state credit based on the federal earned income credit. The state credit would equal 15 percent of the federal credit reduced by the alternative minimum tax.

AB 149 (Zettel)
This bill would extend the application of the recently enacted teacher retention credit to credentialed specialists, as defined by the Education Code.

AB 166 (Cedillo)
This bill would establish a 25 percent credit for the certified rehabilitation of a certified historic structure within a redevelopment area. The amount eligible for the credit would be based on the federal rehabilitation credit. Excess credit amounts could be carried over until exhausted.

AB 246 (Bill Campbell)
This bill would increase from 50 to 100 percent of the costs paid or incurred that may qualify a taxpayer for a credit for adopting any minor child who is a citizen or legal resident of the United States and was in the custody of a public agency. The credit would continue to be limited to $2,500 per minor child.

AB 350 (Rod Pacheco)
This bill would allow taxpayers who are 65 years of age or older, as of December 31 of the taxable year, a 20 percent credit for qualified medical expenses provided the taxpayer met certain requirements.

AB 462 (Wyland)
This bill would allow a 50 percent credit for the amount paid or incurred for qualified expenses in connection with lending a qualified employee to a public

Continued on page 7

Legislative analyses on Internet

On our website you can find pertinent information about the legislation we are tracking.

Go to *www.ftb.ca.gov* and click on the *Law and Legislation* button. There you will find a preview of proposed tax law changes and our analysis of how they might affect your clients if the legislation becomes law.

We also post proposed and final regulations, legal notices and rulings, and links to the *Revenue and Taxation Code* and the *California Code of Regulations*.

You can find the full text of bills, resolutions, and constitutional amendments, and their status, history, votes, analyses, and veto messages at *www.leginfo.ca.gov*, the *Official California Legislation Information* website.

PROPOSED BILLS

Continued from page 6

high school or community college located in this state.

AB 465 (Wyman)
This bill would allow a 33 1/3 percent credit for the amount paid or incurred for the costs of film production in this state. To qualify for the credit, the taxpayer would be required to be eligible for a Small Business Administration loan.

AB 475 (Cogdill)
This bill would allow a credit equal to the qualified wages paid or incurred by a qualified employer in a qualified area.

AB 485 (Runner)
This bill would change the Joint Strike Fighter credit by extending the operation of the credit to January 1, 2008 and by modifying the time periods used to determine the applicable credit percentage to reflect the two-year extension of the credit.

AB 513 (Strickland)
This bill would allow a taxpayer who is 65 years of age or older a credit for the amount paid or incurred for prescription drugs and not reimbursable or payable by a health plan. The credit would be limited to $650 per taxable year.

AB 595 (Leach)
This bill would increase the dependent exemption credit amount from $227 to $500 for taxable years beginning on or after January 1, 2001.

AB 654 (Horton)
This bill would allow a 25 percent credit, not to exceed $500, for the purchase of energy efficient residential appliances that are purchased as a replacement for an existing appliance.

AB 660 (Nakano)
This bill would remove the state modifications to the alternative incremental method of determining the research and development credit. Thus, for taxable years beginning on or after January 1, 2001, the state incremental rates would conform to the federal rates.

AB 665 (Bates)
This bill would conform with modifications to the federal adoption credit. The bill would allow a state credit equal to 50 percent of the costs above $5,000 ($6,000 in the case of a child with special needs) but not in excess of $10,000 ($11,000 in the case of a child with special needs) paid or incurred by the taxpayer for an adoption that is not eligible for the current state credit for public agency adoptions.

AB 694 (Corbett)
This bill would allow a credit for health coverage provided by an eligible employer for an employee and the employee's dependents. To be eligible for the credit, the employer must have employed no more than 25 employees (on average) and would be required to meet a number of other requirements.

AB 727 (Correa)
This bill would allow a 10 percent credit for inventory costs or those costs that would be included in inventory under federal law for the donation of agricultural products.

AB 738 (Lowenthal)
This bill would allow a 50 percent credit for a contribution, certified by the California Tax Credit Allocation Committee, to an eligible community development corporation.

AB 790 (Maldonado)
This bill would allow a 25 percent credit for qualified expenses paid or incurred for preventive health care, a health plan, or preventive care insurance for an employer's employees who are employed in this state as farm workers.

AB 813 (Briggs)
This bill would allow a 100 percent credit for a hot water heater recirculating system operational with a qualified plumbing fixture. The system must be installed as part of new construction, which would include an addition to a preexisting structure.

AB 845 (Nakano)
This bill would allow a 50 percent credit for the cost paid or incurred for implementing qualified alternative technology for dry cleaning (as defined by the Health and Safety Code) and as determined by the Air Resources Board.

AB 847 (La Suer)
This bill would revise the state household and dependent care credit. The credit percentage would be increased to 100 percent for those taxpayers with California adjusted gross income up to $70,000 and to 84 percent for those taxpayers with adjusted gross income over $70,000, but not over $100,000. The credit would continue to be disallowed once adjusted gross income exceeds $100,000.

AB 866 (Diaz)
This bill would extend the operation of the Employer Child Care Program Credit

Continued on page 8

PROPOSED BILLS

Continued from page 7

from January 1, 2003, until January 1, 2007.

AB 872 (Nakano)
This bill would allow a 40 percent credit for the cost of a solar energy system installed on residential or commercial property located in California.

AB 902 (Alquist)
This bill would establish a credit equal to 50 percent of qualified wages paid or incurred in connection with lending a qualified employee to teach math or science at a public school (grades 7-12) located in this state.

AB 928 (Daucher)
This bill would establish the *Live Near Your Work Program* that would result in a cooperative effort between state and local government and employers to provide financial assistance to eligible employees in purchasing homes near their place of employment.

AB 998 (Kelley)
This bill would allow a credit equal to 30 percent of the total price paid for the original retail purchase of a zero emission *Neighborhood Electric Vehicle.*

AB 1001 (Longville)
This bill would establish the *Spaceport Development Zone Act of 2001* to promote the development of a commercial space transportation system based in this state by providing development authority and economic incentives.

AB 1054 (Cogdill)
This bill would allow a 50 percent credit for the purchase and installation of an irrigation system that is placed in service in this state on land owned or leased by a taxpayer that is used for the production of farm income.

AB 1124 (Koretz)
This bill would establish two credits: The first credit would equal the applicable percentage of costs paid or incurred for the purchase or lease and installation of any power generation system installed onsite on property located in this state. The second credit would equal the sales or use tax paid or incurred for the purchase or lease of any power generation system as defined in the first credit.

AB 1166 (Bill Campbell)
This bill would allow a 25 percent credit for prescription drugs for taxpayers who are 65 years of age or older as of December 31 of the taxable year.

AB 1174 (Alquist)
This bill would allow a refundable credit for the cost paid or incurred by a qualified taxpayer for tuition, fees, and related expenses at any qualifying educational institution for the taxpayer or any dependent of that taxpayer.

AB 1222 (Rod Pacheco)
This bill would increase the dependent personal exemption incrementally until it reaches $500 in 2005.

AB 1250 (Florez)
This bill would allow a credit for qualified crude oil production and qualified natural gas production, as defined by federal law.

AB 1257 (Cardenas)
This bill would establish two credits. The first credit would equal 50 percent of qualified expenditures of establishing a child care facility in excess of $4,000. It would also allow a credit to a bank or financial corporation equal to 50 percent of the forgone interest income that the bank or financial corporation could have collected on a child care facility loan had the loan rate been one point above prime.

AB 1264 (Bill Campbell)
This bill would allow a 75 percent credit for the cost of a solar energy system installed on residential premises located in this state and owned by the taxpayer.

AB 1269 (Bill Campbell)
This bill would allow a 25 percent credit for the amount paid or incurred for an energy-reducing device.

AB 1353 (Wiggins)
This bill would allow a 100 percent credit for the amount of any political contributions to a controlled committee of a candidate, political party committee, or small contributor committee subject to the following limitations:

- $200 for married couples filing joint returns, a head of household, or a surviving spouse;
- $100 for an individual.

AB 1366 (Harman)
This bill would increase to 24 percent the credit for qualified research and development costs related to energy conservation and efficiency technology.

AB 1383 (Daucher)
This bill would provide that the dependent exemption credit may be divided between parents equally regardless of marital or filing status or support provided.

Continued on page 9

PROPOSED BILLS

Continued from page 8

AB 1413 (Hollingsworth)
This bill would fully conform state law to the federal alternative incremental method for purposes of calculating the research and development credit for taxable years beginning on or after January 1, 2001.

AB 1591 (Leslie)
SB 1084 (Haynes)
Both bills would allow a credit for qualified investments in a qualified community development entity.

AB 1625 (Pescetti)
This bill would allow a credit equal to the amounts donated to a nonprofit charitable organization that provides scholarships to low-income children to attend a private school in this state.

AB 1631 (Pescetti)
This bill would allow a credit equal to any contribution made by a taxpayer to a California medical savings account.

ABX2 15 (Rod Pacheco)
This bill would allow a credit, not to exceed $1,000, for qualified costs paid or incurred for energy conservation measures installed and placed in service on the taxpayer's qualified property in this state.

ABX2 29 (Koretz)
This bill would establish a credit and a deduction related to power generation systems. The credit would be equal to an applicable percentage of the cost paid or incurred for the purchase or lease and installation of any onsite power generation system in this state. A power generation system would include solar, wind-driven, fuel cell, photovoltaic, and natural gas systems, but would specifically exclude diesel, oil, or steam generation systems.

ABX2 43 (Harman)
This bill would amend two existing credits. The research and development credit rate would be increased from 20 percent to 25 percent for energy conservation and efficiency technology research and development costs. The Manufacturer's Investment Credit would be expanded to include construction and development of privately owned electric transmission lines in this state. The bill also would establish five new energy conservation related credits.

SB 44 (Alpert)
This bill would allow an individual a refundable credit for contributions to a Scholarshare trust made on behalf of any qualified beneficiary. The credit amount would equal 10 percent of any contributions, not to exceed $500 per qualified beneficiary. The credit would not be allowed if the individual's adjusted gross income exceeds $100,000 ($200,000 for married couples filing a joint return or a head of household).

SB 48 (McClintock)
This bill would increase the amount of the renter's credit to $266 for individuals or $532 for married couples filing a joint return, a head of household, or a surviving spouse.

SB 73 (Dunn)
This bill would increase the aggregate credit allocation amount for the California low-income housing credit from $50 million to $70 million beginning with calendar year 2001.

SB 121 (Murray)
This bill would allow a credit to an Internet service provider that furnishes unlimited free Internet access for a minimum of one year and a personal computer to a low-income household.

SB 268 (Dunn)
This bill would allow a credit in an unspecified percentage of the amount paid or incurred for qualified expenses in connection with providing English as a second language classes on the employer's premise to employees located in this state.

SB 365 (McPherson)
This bill would allow a 10 percent credit for the cost paid or incurred for a solar energy system installed on residential or commercial property located in California.

SB 401 (Soto)
This bill would establish the Homeownership Tax Credit Act of 2001, and would express Legislative findings and declaration regarding homeownership in California.

SB 409 (Vincent)
This bill would extend the sunset date of the Community Development Financial Institution Investments Credit from January 1, 2002, to January 1, 2007.

SB 430 (Vincent)
This bill would allow a credit equal to the costs paid or incurred for spaying or neutering a cat or dog purchased or adopted by the taxpayer. The credit would be limited to $100 per cat or dog.

SB 435 (Monteith)

Continued on page 10

PROPOSED BILLS

Continued from page 9

This bill would allow a 30 percent credit for the cost paid or incurred to purchase and install an irrigation system improvement. The system must be placed in service in this state and used in a business for the production of farm income.

SB 547 (Figueroa)
This bill would allow a credit equal to the unreimbursed costs paid or incurred by an employer for public transit passes provided to an employee.

SB 553 (Vincent)
This bill would allow a credit equal to 20 percent of the fair market value of developed or undeveloped land located in this state that is permanently donated to an affordable housing land conservancy. To qualify for the credit, the taxpayer must donate at least one acre. No otherwise allowable deduction could be claimed for any cost for which this credit is allowed.

SB 558 (Morrow)
This bill would allow a credit equal to an unspecified percentage for qualified expenses in connection with lending a qualified employee to a public school or vocational institution in this state for the purpose of teaching math or science.

SB 559 (Morrow)
This bill would increase the credit percentage for the Manufacturers Investment Credit from six percent to eight percent of the cost of qualified property.

SB 571 (Morrow)
This bill would allow a credit equal to the amount paid or incurred for excessive energy costs. Excessive energy costs would be computed by formula based on the federal consumer price index for the region or area over 110 percent of the national average of the energy component of the federal consumer price index.

SB 630 (Poochigian)
This bill would establish two credits. The first credit would equal the cost paid or incurred by a parent or guardian, not to exceed $250, for a qualified dependent's school uniform.

The second credit would equal the amount paid or incurred for actual transportation costs associated with a qualified dependent's attendance at a school that is not designated as a low-performing school.

SB 654 (Haynes)
This bill would allow a credit equal to the product of the taxpayer's energy conservation percentage, not to exceed 25 percent, and the cost paid or incurred for electricity used by the taxpayer in this state.

SB 677 (McPherson)
This bill would allow a credit equal to an unspecified percentage of the certified final cost of expenditures necessary to meet seismic safety requirements.

SB 698 (Battin)
This bill would allow a 100 percent credit, not to exceed $200, for the amount paid or incurred for extra curricular activity fees paid to a public or private school.

SB 718 (Poochigian)
This bill would allow a 35 percent credit for the cost paid or incurred for the purchase of any equipment to recycle used motor oil.

SB 719 (Poochigian)
This bill would allow a refundable credit for the amount paid or incurred for health insurance for any member of the taxpayer's family who is eligible to receive benefits under the Healthy Families Program.

SB 782 (Brulte)
This bill would allow a 10 percent refundable credit for contributions made after January 1, 2001, to a Scholarshare trust account on behalf of any qualified beneficiary. The taxpayer's AGI may not exceed $200,000. The maximum credit would be limited to $500 per qualified beneficiary.

SB 846 (Ackerman)
This bill would allow a credit equal to 100 percent of the fair market value of services rendered without charge by an attorney, physician, surgeon, dentist, or optometrist to any nonprofit charitable organization located in this state that provides services to the poor.

SB 877 (Poochigian)
This bill would allow a credit equal to the portion of California property taxes attributable to fixtures and improvements of a dairy farm used in the cogeneration or transformation of dairy industry by-products into fuel or energy resources used to operate a dairy farm.

SB 914 (Battin)

Continued on page 11

PROPOSED BILLS

Continued from page 10

This bill would allow a 20 percent credit for qualified costs paid or incurred, not to exceed $1,000, to replace a roof composed of nonretardant fire material with a fire retardant roof on a residential dwelling in California and owned by the taxpayer.

SB 957 (Ackerman)
This bill would increase the dependent exemption credit from $227 to $500 for taxable years beginning on or after January 1, 2001.

SB 981 (Haynes)
This bill would allow a credit equal to 20 percent of the fair market value of developed or undeveloped land in this state that is permanently donated to an affordable housing land conservancy established in this state. The credit would not be allowed unless at least one acre is donated.

SB 1121 (Margett)
This bill would allow a credit in accordance with the federal work opportunity credit. The definition of members of a *targeted group* would be modified to include only those individuals who are qualified for state disability insurance in this state.

SB 1163 (Vasconcellos)
This bill would allow a 100 percent credit, not to exceed $1,500, for information technology training for the taxpayer or any employee of the taxpayer.

SB 1165 (Brulte)
This bill would increase from 15 percent to 20 percent the credit for qualified research and development expenses.

SBX2 1 (Soto)
This bill would express Legislative intent to provide relief to California consumers of electrical power due to unprecedented increases in electrical rates.

SBX2 16 (Soto)
This bill would allow a 100 percent credit for expenses paid or incurred for a generator providing onsite electric service at a dairy farm located in this state.

SBX2 17 (Brulte)
This bill would allow a credit equal to the applicable percentage of the net cost that is paid or incurred for the purchase and installation of a solar energy system for production of electricity in this state.

SBX2 38 (Oller)
This bill would allow a 100 percent credit for the cost paid or incurred for a backup generator, as defined by the Health and Safety Code, and related hook-up and switching equipment. No otherwise allowable deduction could be taken for any cost for which this credit is allowed.

SBX2 49 (Morrow)
This bill would allow a credit equal to the amount paid for excessive energy costs. Excessive energy costs would be computed by formula based on the federal consumer price index for the region or area over 110 percent of the national average of the energy component for the federal consumer price index.

SBX2 54 (Haynes)
This bill would allow a credit equal to the energy conservation percentage multiplied by the cost paid or incurred by the taxpayer during the taxable year for electricity.

SBX2 71 (Perata)
This bill would express Legislative intent to reduce overall system demand by creating an incentive for individual users to install onsite generator equipment.

Be sure to use correct secretary of state number

Many Form 568*, Limited Liability Company Return of Income* forms filed for tax year 1999 showed incorrect secretary of state numbers.

These are 12 digit numbers that begin with the year the limited liability company organized or registered with the California Secretary of State.

For example, if the limited liability company organized or registered with the California Secretary of State in 1996, the number would be: *1996XXXXXXXX.*

We need the correct number to accurately process your client's return. If you're unsure about the secretary of state number, we can help. Call (800) 852-5711.

Tax News

PO BOX 2708
RANCHO CORDOVA CA 95741-2708

Presorted
First-Class Mail
U.S. Postage Paid
Sacramento, CA
Permit No. 312

Address Service Requested